HAHNEMANN
SUMMARY OF INPATIENT/OUTPATIENT ADJUSTMENTS
For the Twelve Months Ended June 30, 1997

19-Jun-97
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	7/96	8/96	9/96	10/96	11/96	12/96	1/97	2/97	3/97	4/97	5/97	6/97	FY97 YTD
OUTPATIENT:													
OTHER CY ADJUSTMENTS:													
DC #33 Adjustments	(1,433)	(1,433)	(1,433)	(1,433)	(1,433)	(1,433)	(1,851)	(1,433)	7,165	(8,598)			(13,316)
USHC Capitation - Other		1,741	2,021	12,460		(58,082)	(16,229)						(58,088)
Aetna Radiology								461	473	502	1,320		2,756
HP Capitation Income		2,679						(13,563)	5,100	5,770	2,448		2,434
MA of NJ Non-Patient Distribution										69,034			
Non Patient Cash - Mercy									980		282		1,262
Global Fee Transfer - USHC	(56,033)	(5,952)	(69,755)	(33,504)	(40,571)	(33,238)	(58,190)	(35,281)	(95,302)	(27,014)	(29,643)		(484,483)
Global Fee Transfer - KHPE										(11,240)			(11,240)
Global Fee Transfer - GPPPN	(12,245)	(8,390)	(10,213)	(6,709)	(7,240)	(26,123)	(8,719)	(12,673)	(70,719)	(13,090)	(16,658)		(192,779)
USHC Radiology - Oncology Nuclear										(92,899)			(92,899)
KHPE Capitation Income	2,703	41,216	45,000	459	52,028	48,539	(28,569)	103,533	51,270	50,282	50,473		416,933
Radiology Cap Income - USHC		27,711	27,090	23,972		48,984		48,972	23,203	23,196	22,868		244,016
Total	(67,008)	57,572	(7,290)	(4,755)	2,784	(21,354)	(113,558)	88,016	(77,830)	(4,056)	31,110	0	(116,368)
OTHER PY ADJUSTMENTS:													
MC PIP Adjust PY	(216)												(216)
Total	(216)	0	0	0	0	0	0	0	0	0	0	0	(216)
COST RATE ADJUSTMENTS:													
MA CRA PY	105,786	105,786	105,786	105,786	105,786	105,786	132,590	132,590	132,590	132,590	132,590		1,297,566
MA DSH Adjust	90												90
MC CRA Adjust - 72 HR		1,491											1,491
MC Rate Overstatement Adjust	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)		(330,000)
Reserve on MC Payback	(52,200)	(52,200)	(52,200)	(52,200)	(52,200)	(52,200)	(52,200)	(52,200)	(52,200)	(52,200)	(52,200)		(574,200)
Total	23,676	25,077	23,586	23,586	23,586	23,586	50,390	50,390	50,390	50,390	50,390	0	395,047

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CL 94020

EXHIBIT 4458

9

Coopers & Lybrand

Coopers & Lybrand L.L.P.
a professional services firm

600 Grant Street
35th Floor
Pittsburgh, Pennsylvania
15219-2777

telephone (412) 355-8000
facsimile (412) 355-8089

SALLY
RISK BASED
NEW AREAS
PEOPLE
CLASS

April 8, 1996

Audit Committee of the Board of Trustees
of the Allegheny Health, Education and
Research Foundation:

This past year has clearly been one of the most interesting years that healthcare providers have faced in decades. The industry continues to undergo profound change. Patients and payors demand higher quality service at lower costs, enrollment in managed healthcare plans continues to increase, and pending changes in government health insurance programs demand that healthcare providers adhere to a new standard of efficiency. In order to stay competitive and to meet the challenges of tomorrow, healthcare providers are faced with the requirement to increase revenue streams, maximize operating efficiencies and offer a diversity of services as a hedge against changes in third party reimbursements. These services demand change, and the marketplace of the next decade will favor those providers with the foresight and the ability to adapt.

AHERF Adapts to Change

Allegheny Health, Education and Research Foundation (AHERF) has had this foresight and has made changes to adapt to the marketplace. During the past year, AHERF has undertaken many initiatives to adapt to the changing environment. While each change is designed to better position AHERF for the impending revisions in the healthcare system, each also has the potential to create issues or concerns that should be addressed by management and by Coopers & Lybrand L.L.P., as your auditors. Following is a brief summary of what we perceive to be five of the more significant financial based items that have changed at AHERF which will require additional attention in our upcoming audits:

- AHERF has completed its centralization of the inpatient/outpatient billing function in Pittsburgh and has continued information system upgrades and consolidation. With these changes and other external changes, AHERF patient accounts receivable has increased $65 million from June 30, 1995 to December 31, 1995.
- Acquisition of numerous physician practices, facilitated through Allegheny Integrated Health Group, and integration of these plans into the AHERF system.
- Continued information system conversions and system upgrades, especially in the Delaware Valley.
- Consolidation of all investment functions into the Pittsburgh Treasury Department.
- Consolidation of Delaware Valley debt (expected to be completed in late April 1996).

CL 036236

Coopers & Lybrand Audit Approach

Consistently each year, our main objective is to render an opinion on the consolidated financial statements of AHERF and on those financial statements necessary for compliance with contractual, statutory or AHERF internal requirements.

In order to accomplish this objective we have designed an audit plan that considers the internal controls at AHERF and includes tests designed to address the significant risks AHERF faces. In addition to the general audit procedures we will complete on all accounts at AHERF, we have specifically designed steps to address each of the five areas discussed earlier. These procedures are designed to ensure that the accounts impacted by the changes are fairly stated and that controls are in place to manage the change. Our planned procedures are detailed in the following section.

It should be noted that we place reliance on the work of your Audit Services Department whenever possible. We have maintained communication with Diane Schrecengost throughout the year, have discussed her plan for the upcoming year and have considered the results of each of the completed internal audits in designing our testing plan. The utilization of the Audit Services Department and its focus on perceived risk areas is a strong control for AHERF management.

We would like to discuss with you two other items which we believe bring value to our audit and which help to maximize the benefit that AHERF can achieve from the audit process. These items are our engagement team and the implementation of our Coopers & Lybrand Audit Support System (CLASS) in 1996.

The engagement team is lead by Bill Buettner who has been the partner on the AHERF engagement for 8 years, and a member of the AHERF engagement team for 17 years. Assisting Bill are Jeff Hoover, Larry Blair, Bob Forrester and Phil Kamp. Each of these individuals are partners in our Firm who possess significant experience servicing the healthcare industry. 4 partners 3 managers

We would like to point out that Jeff Hoover, Phil Kamp and Bob Forrester are three additions to the engagement team for fiscal 1996. Jeff will serve as concurring partner on all audit engagements. Jeff previously worked with AHERF management as engagement manager from 1991 through 1993. Phil specializes in managed care and Bob focuses his attention on government compliance and research accounting. We have added these individuals to allow us to better serve AHERF as you maneuver through the changes caused by managed care and expand your efforts in research and the acquisition of external funding. As in previous years, Larry is prepared to assist AHERF in all aspects of tax compliance, including compliance with ERISA provisions and private inurement questions which have been the focus of recent IRS audits.

CLASS is our Firm's version of a "paperless" audit. It is a fully integrated automated system that allows each member of the engagement team to communicate on-line while providing access to some of the Firm's best experts. We believe that the system allows us to provide you with insight from other experts and improves the quality of service which we provide.

We believe that the plan we have in place, the team that will implement the plan, and the implementation of CLASS at AHERF will provide you with additional value from the audit process.

Emerging Issues

Lastly, as a separate section of the Audit Committee agenda materials, we have prepared a brief discussion of many of the emerging accounting, reporting, regulatory and tax issues AHERF will face in the near future. We appreciate the opportunity to discuss these at greater length with you and management.

Summary

This booklet is designed to provide you with an overview of the factors that we considered in designing our 1996 Audit Plan, a summary of the audit procedures that we intend to complete in the risk areas, and the areas that have changed over the past year.

We enjoy our relationship with AHERF and look forward to providing you with our best quality service.

Very truly yours,

Coopers & Lybrand L.L.P.

Allegheny Health, Education and Research Foundation

AHERF Audit Approach Overview

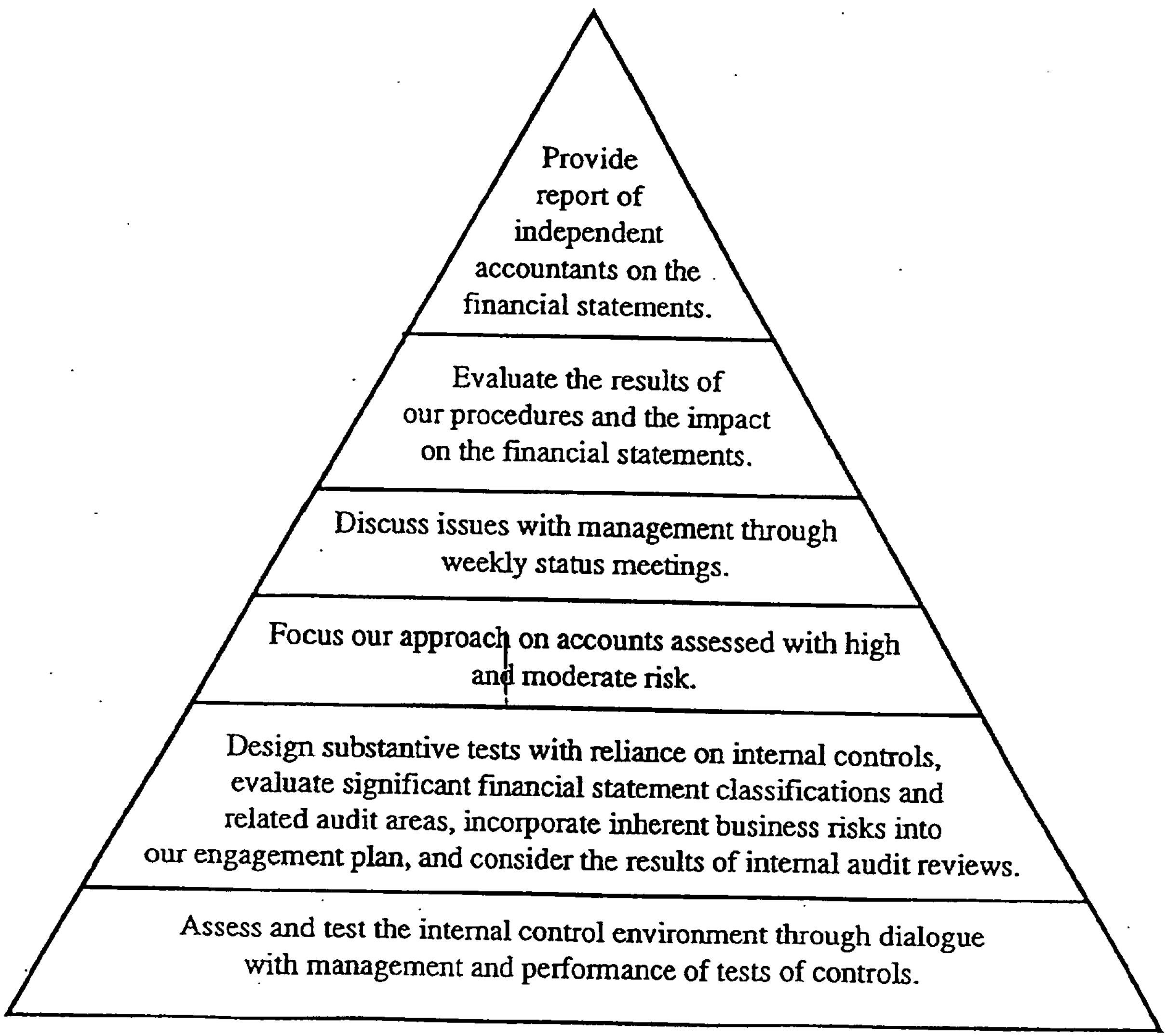
Coopers & Lybrand's Audit Approach has been designed to meet the following objectives:

- ➡ Provide an opinion on the financial statements
- ➡ Provide management with value-added services

The following represents a pyramid of our approach to meet our overall AHERF engagement objectives.

Allegheny Health, Education and Research Foundation

Principles of the C&L Audit Approach



C&L Audit Effort by Level of Emphasis

Audit Scope
Coverage of high risk

Our determination of audit areas and allocation of audit time (by level of audit emphasis and risk assessment) for 1996 is depicted below:

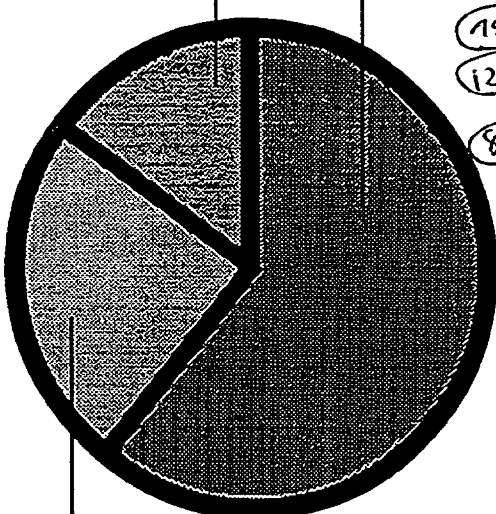
IL 372
Not covered

Lower Risk Assessment
Audit Time 7%

- Cash and Short-Term Investments
- Inventory
- Other Current Assets
- Property and Equipment
- Other Assets
- Restricted Assets

Higher Risk Assessment
Audit Time 66%

- 2400 Patient Receivables/Third-Party Payor Settlements
- 850 Revenue System SAB 116/117
- 1800 Financial Statement Disclosures/Reports ✓ ✓
- 150 Commitments/Contingencies
- 1200 Research Accounting/A-133 Reporting
- 800 Information Systems



10,600 (68)
11,800 1200 (25)
1800 2650 (7)
3150 150
850 10,600
11,800

Increased A/R review/testing
- Registration Reply to finance
- DV + Regs to Emphasize on DV
- Increased Budget
Hrs ~ 10% for A/R
or 300 hours

Moderate Risk Assessment
Audit Time 27%

- 800 Investments
- 600 Accounts Payable
- Accrued Expenses
- 150 Long-term Debt
- Disbursements System
- 650 Payroll System
- Related Party Transactions ✓

Significant Financial Statement Classifications and Related Audit Areas

- Account receivables/third-party settlements
- Commitments and contingencies
- Revenue system
- Purchasing/payroll
- Investments
- Long-term debt
- Information systems
- Research accounting/A-133 reporting
- Financial reporting

Based on our discussions with management and our understanding of AHERF's business, we believe these are the significant financial statement classifications and related audit areas. All of these areas have been determined to possess moderate or higher audit risk. Furthermore, as a result of the ongoing corporate restructuring, certain areas have been viewed as significant due to the changes made throughout the current year. The following charts depict how each of these areas impacts our reports on the various financial statements to be issued, our approach, the team makeup and financial highlights, if applicable.

Financial Statement Classifications

- **Account receivables/third-party settlements**
- Commitments and contingencies
- Revenue system
- Purchasing/payroll
- Investments
- Long-term debt
- Information systems
- Research accounting/A-133 reporting
- Financial reporting

Account Receivables/Third-party Settlements

Approach

- Document and evaluate information system controls
- Consider results of billing/coding compliance reviews
- Evaluate net realizable value of patient accounts based on historical results and existing contracts
- Evaluate aging categories
- Review third-party adjustments and settlements for current and prior years and determine the impact on the current and prior years' estimates
- Assess reasonableness of contractual allowances in connection with testing of patient revenues and patient accounts receivable
- Review risk-based capitation contracts to determine if recorded amount is appropriate

Scope

- Hospital Patient A/R
- Professional Fees
- Third-party Payor Contracts

Team

- Audit
- Computer Assurance
- Reimbursement
- Managed Care Consultants

Financial Highlights ($ in millions)

Net Patient Accounts Receivable	
12/95	$320.7
6/95	$255.4

Financial Statement Classifications

Commitments and Contingencies

Account receivables/third-party settlements
Commitments and contingencies
Revenue system
Purchasing/payroll
Investments
Long-term debt
Information systems
Research accounting/A-133 reporting
Financial reporting

Approach

- Understand the system for evaluating commitments and contingencies, including litigation, risk management, etc.
- Circulate inquiry letter to attorneys and actuaries
- Analyze significant self-insurance accruals including claims history, actuarial assumptions and settlement data
- Assess compliance with applicable federal, state and local tax rules and regulations
- Throughout the year, on an as-needed basis, discuss and analyze management's compliance with coding, billing, etc. to third-party payors
- Evaluate full risk contracts for possible liability

Team

- Audit
- Tax
- Actuarial
- Reimbursement

Scope

- Organization-wide Malpractice Liability
- Organization-wide Workers' Compensation Liability
- Possible Hospital Third-Party Exposure (i.e. coding, billing)
- Managed Care Contracts

Financial Statement Classifications

- Account receivables/third-party settlements
- Commitments and contingencies
- **Revenue system**
- Purchasing/payroll
- Investments
- Long-term debt
- Information systems
- Research accounting/A-133 reporting
- Financial reporting

Revenue System

Approach

- Understand and document the revenue cycle/billing process
- Assess major controls over:
  - Billing of services and revenue reporting
  - Collection of balances and remittance processing
  - Charity care and write-off policies
- Assess controls over reporting/monitoring of managed care contracts

Team

- Audit
- Computer Assurance
- Managed Care Consultants

Scope

- Hospital Net Patient Revenue
- Professional Fee Revenue
- Hospital Patient Receivables
- Organization-wide Bad Debt Expense
- Tuition Revenue

Financial Highlights ($ in millions)

Net Patient Revenues	
6 mo. ended 12/95	$660.7
Fiscal 1995	$1,246.0

Financial Statement Classifications

Purchasing / Payroll

- Account receivables/third-party settlements
- Commitments and contingencies
- Revenue system
- **Purchasing/payroll**
- Investments
- Long-term debt
- Information systems
- Research accounting/A-133 reporting
- Financial reporting

Approach

- Understand and document the purchasing/payroll cycles, key internal controls over these cycles and related cash disbursements
- Assess:
  - — Policies and procedures
  - — Authorization for purchases, payment, and changes to the standing data
  - — Documentation of receipt of goods
  - — Recording of expenses in accounting records

Team

- Audit
- Computer Assurance

Scope

- Organization-wide Payroll and Salary Expenses
- Organization-wide Benefit Expenses
- Organization-wide Supplies and Purchased Services Cost

Financial Highlights ($ in millions)

Salaries, Wages and Fringe Benefits		
	6 mo. ended 12/95	$470.5
	Fiscal 1995	$839.4
Materials, Supplies and Services		
	6 mo. ended 12/95	$225.7
	Fiscal 1995	$442.9

Financial Statement Classifications

Investments

- Account receivables/third-party settlements
- Commitments and contingencies
- Revenue system
- Purchasing/payroll
- **Investments**
- Long-term debt
- Information systems
- Research accounting/A-133 reporting
- Financial reporting

Approach

- Document corporate restructuring
- Confirm existence
- Review third-party internal control reports of the trustees
- Review classifications (i.e., unrestricted, temporarily restricted, permanently restricted)
- Test controls over buy, sell and trade approvals via review of third-party reports
- Test interest, income, gains and losses for reasonableness
- Assess compliance with SFAS 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, if adopted

Scope

- Organization-wide Investment Portfolio
- Classification of Assets

Team

- Audit

Financial Highlights ($ in millions)

Investments and Assets Limited to Use

12/95	$451.0
6/95	$495.2

Financial Statement Classifications

Long-term Debt

- Account receivables/third-party settlements
- Commitments and contingencies
- Revenue system
- Purchasing/payroll
- Investments
- **Long-term debt**
- Information systems
- Research accounting/A-133 reporting
- Financial reporting

Approach

- Document corporate restructuring
- Confirm obligations
- Review debt covenants for compliance

Team

- Audit

Scope

- Organization-wide Long-term Debt
- Organization-wide Compliance Review

Financial Highlights ($ in millions)

Long-term Debt	
12/95	$613.4
6/95	$621.1

CL 036248

Financial Statement Classifications

Information Systems

- Account receivables/third-party settlements
- Commitments and contingencies
- Revenue system
- Purchasing/payroll
- Investments
- Long-term debt
- **Information systems**
- Research accounting/A-133 reporting
- Financial reporting

Approach

- Understand and document computer controls
- Assess key controls over financial information systems
  - —Implementation of new systems
  - —Maintenance of existing systems
  - —Computer security
  - —Computer operations/execution
- Document and test systems
- Conversion and implementation

Team

- Audit
- Computer Assurance

Scope

- Organization-wide Computer Controls over Financial Information Systems

Financial Statement Classifications

Research Accounting/A-133 Reporting

- Account receivables/third-party settlements
- Commitments and contingencies
- Revenue system
- Purchasing/payroll
- Investments
- Long-term debt
- Information systems
- **Research accounting/A-133 reporting**
- Financial reporting

Approach

- Review propriety of classification of awards between major and non-major programs
- Assess compliance with laws and regulations that have a direct and material effect on the financial statements
- Assess compliance with specific requirements of OMB Circular A-133 applicable to major and non-major programs
- Assess compliance with general requirements of OMB Circular A-133

Team

- Audit

Scope

- Organization-wide Compliance with Regulations
- Recognition of Revenue
- Understanding of Future Commitments, Matching Requirements, etc.

Financial Highlights ($ in millions)

Research and Training Support

6 mo. ended 12/95	$27.2
Fiscal 1995	$54.2

Financial Statement Classifications

Financial Reporting

- Account receivables/third-party settlements
- Commitments and contingencies
- Revenue system
- Purchasing/payroll
- Investments
- Long-term debt
- Information systems
- Research accounting/A-133 reporting
- **Financial reporting**

Approach

- Design overall approach to meet various objectives
- Integrate procedures to support individual reports
- Evaluate the impact of emerging issues

Team

- Audit

Scope

- Organization-wide Financial Statement Presentation
- Classification of Revenue and Expenses
- Classification of Assets and Liabilities
- Compliance with Generally Accepted Accounting Principles
- Disclosure of Pertinent Accounting Policies and Other Items

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Proposed 1996 Audit Fees			
Financial Statements/Reports	**Report Purpose**	**Actual 1995**	**Proposed 1996**
Financial Statement Audits (including required debt compliance letters):			
Consolidated Financial Statements of Allegheny Health, Education & Research Foundation, including Supplemental Consolidating Schedules	Guaranty and Suretyship Agreement (PNC Line of Credit)	39,000	32,000
Allegheny General Hospital (AGH) Obligated Group	Restated and Amended Master Trust Indenture	94,000	94,000
Allegheny United Hospitals (AUH) Obligated Group	Master Trust Indenture	127,000	127,000
Medical College of Pennsylvania and Hahnemann University Hospital System (MCPHUHS) - Medical College of Pennsylvania (MCP) Hospital	Loan and Security Agreement	85,000	85,000
Medical College of Pennsylvania and Hahnemann University Hospital System (MCPHUHS) - Hahnemann University Hospital	Master Trust Indenture	85,000	85,000
Medical College of Pennsylvania and Hahnemann University (MCPHU)	Loan and Security Agreement	56,200	56,000
Allegheny Singer Research Institute	Internal Requirement	13,000	13,000
Horizon Medical Corporation (St. Christopher's Hospital for Children parking garage)	Sublease and Security Agreement	11,500	11,500
Allegheny Integrated Health Group	Internal Requirement	0	18,000
	Total	510,700	521,500

Proposed 1996 Audit Fees			
Financial Statements/Reports	**Report Purpose**	**Actual 1995**	**Proposed 1996**
A-133 Audits:			
Allegheny Singer Research Institute	U.S. Office of Management and Budget Requirement	17,000	17,000
MCPHU	U.S. Office of Management and Budget Requirement	34,000	34,000
St. Christopher's Hospital for Children	U.S. Office of Management and Budget Requirement	21,000	21,000
MCPHUHS - Hahnemann University Hospital	U.S. Office of Management and Budget Requirement	18,000	18,000
MCPHUHS - MCP Hospital	U.S. Office of Management and Budget Requirement	18,000	18,000
	Total	108,000	108,000
Insurance Company Audits:			
Allegheny Health Services Providers Insurance Company	Cayman Island Insurance Requirement	15,000	18,000
Hahnemann Insurance Company, Inc.	Vermont Department of Insurance Requirement	10,000	10,000
	Total	25,000	28,000

CL 036253

27.

Proposed 1996 Audit Fees			
Financial Statements/Reports	**Report Purpose**	**Actual 1995**	**Proposed 1996**
Benefit Plan Audits:			
Retirement Account Plan for the Employees of Allegheny General Hospital for the year ended December 31, 1994	ERISA Requirement	10,000	0
Retirement Account Plan for the Employees of The Medical College and Hospital of Pennsylvania for the year ended December 31, 1994	ERISA Requirement	6,300	0
Retirement Account Plan for the Employees of United Hospitals, Inc. for the year ended December 31, 1994	ERISA Requirement	7,300	0
Hahnemann University Non-Contributory Defined Contribution Retirement Plan	ERISA Requirement	7,300	5,000
Hahnemann University Defined Benefit Pension Plan (Short plan year ending December 31, 1994)	ERISA Requirement	7,300	0
Retirement Account Plan for Employees of Allegheny Health, Education and Research Foundation for the year ending December 31, 1995	ERISA Requirement	0	20,000
	Total	38,200	25,000

CL 036254

Proposed 1996 Audit Fees			
Financial Statements/Reports	**Report Purpose**	**Actual 1995**	**Proposed 1996**
Other:			
AHERF Management Incentive Plans	Internal Requirement	9,000	10,000
Prudent Buyer Computations	Third-Party Payor Requirement	4,800	5,000
Audit of National Institute of Standards and Technology Grant - "Development of National Medical Practice Knowledge Banks" as of September 29, 1996	NIST Requirement	0	7,000
AGH Spina Bifida Program	Commonwealth of Pennsylvania Audit Requirement	2,600	2,500
	Total	16,400	24,500
	Grand Total	698,300	707,000
		12000	11800 → ?
Corporatewide		698,300	682,000
		12,000	11,200

2.4% ↓

Total 96	707,000
AIR	15,000
ASRI	7,000
AIHG	18,000
	667,000
Reduction	31,300 or
	4.42%

CL 036255

29.

1996 PROPOSED FEE ASSUMING DELAWARE VALLEY CONSOLIDATION

The consolidation of the Delaware Valley debt is schedule to be finalized in April 1996. Should this be completed, it is our understanding that there will only be 1 report required to be issued for the Delaware Valley Obligated Group versus the current reporting requirements. Below is a summary of our proposed fees for the AHERF engagement should this consolidation be finalized prior to June 30, 1996:

Financial Statements/Reports	Report Purpose	Actual 1995	Proposed 1996	
Financial Statement Audits:				
Consolidated Financial Statements of Allegheny Health, Education & Research Foundation, including Supplemental Consolidating Schedules	Guaranty and Suretyship Agreement (PNC Line of Credit)	39,000	32,000	2171
Allegheny General Hospital (AGH) Obligated Group	Restated and Amended Master Trust Indenture	94,000	94,000	
Delaware Valley Obligated Group		364,700	364,500 295,000	24
Allegheny Singer Research Institute	Internal Requirement	13,000	13,000	
Allegheny Integrated Health Group	Internal Requirement	—	18,000	
Financial Statement Audits		510,700	452,000	132
A-133 Audits		108,000	108,000	
Insurance Company Audits		25,000	28,000	
Benefit Plan Audits		38,200	25,000	
Other		16,400	24,500	
	Grand Total	698,300	637,500	92
			10,600	

1200
Smurap R 60

EXHIBIT 4463

AHERF Consolid
Aging by Major P
06/30/96

	MCC Out Patient > 180 days - 360	MCC Out Patient > 360 days	EPPI InPatient > 180 days - 360	EPPI InPatient > 360 days	Hahnemann InPatient > 180 days - 360	Hahnemann InPatient > 360 days	Hahnemann Out Patient > 180 days - 360	Hahnemann Out Patient > 360 days	ACH InPatient > 180 days - 360	ACH InPatient > 360 days	ACH Out Patient > 180 days - 360	ACH Out Patient > 360 days	TOTAL All Entities > 180 days - 360	TOTAL All Entities > 360 days	TOTAL ALL ENTITIES > 180 days
Medicaid A/R	$1,272,317	$381,666	$770,522	$1,634,719	$1,090,223	$4,923,497	$314,731	$1,027,436	$112,288	$616,858	134968	459242	$10,685,666	$13,535,220	$27,823,273
Reserve	$1,134,406	$381,666	$654,943	$1,634,719	$330,132	$1,787,879	$165,438	$321,743	$50,538	$431,801	77943	459242	$5,702,621	$8,305,817	$15,473,824
Total Medicaid	$138,111	$0	$115,579	$0	$760,091	$3,135,610	$349,293	$705,693	$61,750	$185,057	$57,025	$0	$4,883,045	$5,229,403	$12,349,449
Blue Cross A/R	$1,076,787	$870,061	$53,702	$864,654	$751,537	$1,779,258	$777,908	$656,761	$38,482	$690,644	37300	-92565	$12,437,728	$11,791,261	$26,857,307
Reserve	$950,201	$870,061	$45,647	$864,654	$37,577	$177,926	$43,228	$45,352	$23,089	$483,581	22620	-74044	$1,800,118	$3,186,437	$7,432,190
Total Blue Cross	$126,586	$0	$8,055	$0	$713,960	$1,601,332	$734,680	$611,409	$15,393	$207,063	$14,672	($18,511)	$10,637,610	$8,604,824	$19,425,117
Medicare A/R	$536,586	$698,427	$77,489	$82,933	$112,081	$916,537	$777,352	$1,139,291	$72,425	$1,071,261	13919	23545	$4,706,777	$6,844,906	$12,585,011
Reserve	$470,298	$698,427	$46,836	$82,933	$5,604	$91,654	$36,368	$113,930	$28,970	$642,757	6648	18836	$1,450,043	$1,808,871	$5,165,327
Total Medicare	$66,288	$0	$31,653	$0	$106,477	$824,883	$690,984	$1,025,365	$43,455	$428,504	$7,271	$4,709	$3,256,734	$4,036,034	$7,419,684
HMO	$811,832	$801,342	$199,526	$181,707	$597,890	$1,360,905	$2,333,375	$1,515,455	$246,428	$324,144	76837	169104	$11,883,275	$6,630,064	$21,086,353
Reserve	$702,114	$801,342	$169,597	$181,707	$298,945	$1,224,815	$1,634,763	$1,383,910	$105,964	$204,913	36320	126828	$3,823,829	$3,718,638	$9,952,688
Total HMO	$109,718	$0	$29,929	$0	$298,945	$136,090	$700,612	$131,545	$140,464	$119,231	$40,517	$42,276	$8,059,446	$2,922,416	$11,133,667
Other A/R	$1,869,248	$3,815,957	$471,346	$1,017,709	($78,694)	$4,843,758	$2,032,260	$2,701,978	$1,015,120	$5,904,459	205520	380642	$19,384,398	$22,230,160	$50,015,269
Reserve	$1,644,753	$3,815,957	$400,544	$1,017,709	($230,092)	$3,719,677	$1,293,581	$2,167,957	$509,387	$4,373,087	105004	293033	$6,616,937	$13,750,580	$28,290,244
Total Other	$224,495	$0	$70,702	$0	$151,398	$1,124,181	$738,679	$534,021	$505,733	$1,531,372	$100,516	$87,509	$12,878,461	$8,479,580	$21,725,435
Total A/R	$5,566,970	$6,567,453	$1,572,785	$3,781,722	$2,473,037	$13,823,955	$6,387,626	$7,040,925	$1,484,743	$8,609,366	$468,544	$939,878	$59,108,044	$60,040,600	$138,367,213
Total Reserve	$4,901,772	$6,567,453	$1,336,867	$3,781,722	$442,166	$7,001,751	$3,173,378	$4,012,992	$717,940	$6,138,139	$248,543	$823,895	$17,392,748	$30,768,343	$66,314,271
NET A/R	$665,198	$0	$235,918	$0	$2,030,871	$6,822,204	$3,214,248	$3,027,933	$766,803	$2,471,227	$220,001	$115,983	$41,715,296	$29,272,257	~~$72,052,942~~

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Aging by Major P Aging by Major Payor > 180 days
06/30/96 06/30/96

		St. Chris InPatient > 180 days- 38	St. Chris InPatient > 360 days	St. Chris Out Patient > 180 days - 360	St. Chris Out Patient > 360 days	Bucks County InPatient > 180 days - 360	Bucks County InPatient > 360 days	Bucks County Out Patient > 180 days - 360	Bucks County Out Patient > 360 days	Elkins InPatient > 180 days - 360	Elkins InPatient > 360 days	Elkins Out Patient > 180 days - 360	Elkins Out Patient > 360 days	MCC InPatient > 180 days - 360	MCC InPatient > 360 days
		.6	1.6												
Medicaid A/R	Medicaid A/R	$2,487,448	$1,902,890	$3,562,417	$2,201,217	$726,241	$314,826	$241,364	$147,350	$224,864	$27,487	$720,800	$279,698	$866,790	$1,181,214
Reserve	Reserve	$1,223,085	$1,617,456	$145,989	$1,623,784	$394,820	$239,080	$10,079	$1,473	$114,381	$27,352	$535,481	$161,288	$767,900	$1,181,214
Total Medicaid	Total Medicaid	$1,264,363	$285,434	$3,416,428	$577,433	$331,421	$75,746	$231,285	$145,877	$110,483	$135	$185,319	$118,410	$98,890	$0
		1.7	2.1												
Blue Cross A/R	Blue Cross A/R	$3,342,555	$2,461,507	$4,271,144	$2,859,620	$357,838	$908,396	$772,184	$409,575	$373,525	$743,032	$1,661,653	$510,369	$380,294	$301,176
Reserve	Reserve	$332,188	$492,301	$358,215	$496,790	$36,368	$272,518	$14,236	$4,685	$41,681	$163,239	$845,261	$259,335	$324,197	$301,176
Total Blue Cross	Total Blue Cross	$3,010,367	$1,969,206	$3,912,929	$2,362,830	$321,470	$635,878	$757,948	$404,890	$331,844	$579,793	$816,392	$251,034	$56,097	$0
Medicare A/R	Medicare A/R	$130,077	$46,725	$301,088	$839,708	$465,682	$355,140	$808,774	$343,912	$567,933	$199,011	$1,429,755	$804,838	$573,891	$224,425
Reserve	Reserve	$6,468	$14,017	$8,687	$16,714	$50,269	$106,542	$19,523	$2,500	$64,230	$59,703	$1,157,238	$659,285	$513,263	$224,425
Total Medicare	Total Medicare	$123,609	$32,708	$292,401	$822,994	$415,413	$248,598	$789,251	$341,412	$503,703	$139,308	$272,517	$145,553	$60,628	$0
HMO	HMO	$1,465,299	$197,030	$2,557,115	$699,918	$574,345	$160,815	$1,975,771	$1,271,067	$284,531	$124,310	$1,670,158	$632,599	$260,478	$590,372
Reserve	Reserve	$136,727	$59,109	$278,976	$67,216	$93,195	$48,245	$73,750	$11,275	$61,509	$37,293	$1,034,083	$389,327	$218,391	$590,372
Total HMO	Total HMO	$1,328,572	$137,921	$2,278,139	$632,702	$481,150	$112,570	$1,902,021	$1,259,792	$223,022	$87,017	$636,075	$243,272	$42,087	$0
Other A/R	Other A/R	$3,225,008	$870,432	$6,268,360	$3,282,066	$1,146,158	$445,947	$1,728,450	$605,311	$781,541	$327,423	$2,599,329	$1,850,535	$1,161,940	$1,543,566
Reserve	Reserve	$901,337	$438,952	$1,402,711	$366,876	$469,224	$245,164	$188,193	$104,693	$477,607	$202,436	$998,341	$821,196	$1,019,451	$1,543,566
Total Other	Total Other	$2,323,671	$431,480	$4,865,649	$2,915,190	$676,934	$200,783	$1,540,257	$500,618	$303,934	$124,987	$1,600,988	$1,029,339	$142,489	$0
Total A/R	Total A/R	$10,650,387	$5,478,584	$16,960,124	$9,882,529	$3,270,264	$2,185,124	$5,526,545	$2,799,215	$2,232,394	$1,421,263	$8,081,595	$4,078,039	$3,243,393	$3,840,753
Total Reserve	Total Reserve	$2,599,805	$2,621,835	$2,194,578	$2,571,380	$1,043,876	$911,549	$305,783	$124,626	$759,408	$490,023	$4,570,404	$2,290,431	$2,843,202	$3,840,753
NET A/R	NET A/R	$8,050,582	$2,856,749	$14,765,546	$7,311,149	$2,226,388	$1,273,575	$5,220,762	$2,674,589	$1,472,986	$931,240	$3,511,191	$1,787,608	$400,191	$0

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AHERF Consolidated
Aging by Major Payor > 180 days
06/30/96

		MCC Out Patient > 180 days - 360	MCC Out Patient > 360 days	EPPI InPatient > 180 days - 360	EPPI InPatient > 360 days	Hahnemann InPatient > 180 days - 360	Hahnemann InPatient > 360 days	Hahnemann Out Patient > 180 days - 360	Hahnemann Out Patient > 360 days	ACH InPatient > 180 days - 360	ACH InPatient > 360 days	AGH Out Patient > 180 days - 360	AGH Out Patient > 360 days	TOTAL All Entities > 180 days - 360	TOTAL All Entities > 360 days	TOTAL ALL ENTITIES > 180 days
Medicaid A/R		$1,309,824	$394,840	$770,522	$1,634,719	$1,893,228	$4,889,515	$727,352	$1,139,795	$112,288	$614,858	134066	459242	$9,188,887	$11,671,340	$24,787,048
	Reserve	$191,710	($66,360)	($4,016)	($5,021)	$559,889	$1,757,296	$36,348	$113,930	$50,530	$431,801	77043	459242	$2,651,828	$4,647,580	$8,043,472
	Total Medicaid	$1,118,114	$461,200	$774,536	$1,639,740	$1,333,339	$3,132,219	$690,904	$1,025,865	$61,758	$183,057	$57,023	$0	$6,564,229	$7,023,760	$16,743,574
Blue Cross A/R		$1,076,787	$870,861	$53,702	$864,634	$2,701,072	$1,786,359	$777,908	$454,761	$38,482	$490,644	37300	-92555	$11,140,690	$9,430,834	$23,208,851
	Reserve	($23,627)	($48,644)	$1,745	$95,925	$136,595	$179,701	$43,228	$43,452	$23,089	$483,581	22828	-74044	$740,753	$1,803,851	$2,570,148
	Total Blue Cross	$1,100,414	$918,705	$51,957	$768,729	$2,564,477	$1,606,658	$734,680	$411,309	$15,393	$207,063	$14,472	($18,511)	$10,399,946	$7,734,983	$20,638,703
Medicare A/R		$336,586	$497,742	$77,689	$82,933	$882,163	$916,537	$514,731	$1,027,436	$72,425	$1,071,261	13919	23545	$5,482,448	$6,728,928	$13,244,018
	Reserve	($8,700)	$871	$2,594	$0	$44,165	$91,654	$164,539	$321,743	$28,970	$642,757	6648	18836	$436,400	$1,278,898	$1,715,473
	Total Medicare	$345,286	$496,871	$75,095	$82,933	$837,998	$824,883	$350,192	$705,693	$43,455	$428,504	$7,271	$4,709	$5,046,048	$5,450,030	$11,528,545
HMO		$930,467	$1,533,882	$199,526	$181,797	$2,398,334	$1,394,887	$2,412,211	$1,570,931	$246,428	$326,144	76837	160104	$12,665,137	$8,551,385	$22,004,951
	Reserve	($5,727)	($18,854)	($34,958)	$37,393	$1,022,139	$1,255,398	$1,703,914	$1,413,037	$105,964	$206,913	38320	126828	$3,648,616	$5,231,555	$5,886,721
	Total HMO	$936,194	$1,552,735	$234,484	$144,314	$1,376,195	$139,489	$708,297	$157,894	$140,464	$119,231	$40,517	$33,276	$9,017,421	$3,324,028	$16,219,210
Other A/R		$1,713,306	$3,070,928	$471,346	$1,017,709	$1,695,502	$4,836,658	$1,955,424	$2,646,342	$1,915,120	$5,904,459	205520	380542	$18,854,400	$21,494,628	$46,058,574
	Reserve	$556,653	$697,092	$55,342	$105,836	$1,097,812	$3,717,702	$1,224,429	$2,118,027	$509,387	$4,373,087	105004	293035	$6,537,682	$11,852,150	$10,034,693
	Total Other	$1,156,653	$2,373,836	$416,004	$911,873	$597,690	$1,118,956	$730,995	$528,475	$505,733	$1,531,372	$100,516	$87,507	$12,316,818	$9,642,478	$37,021,881
Total A/R		$5,566,971	$6,567,452	$1,572,785	$3,781,722	$9,570,239	$13,823,956	$6,387,626	$7,040,925	$1,484,743	$8,609,364	$468,544	$939,978	$57,006,539	$64,877,315	$131,101,421
	Total Reserve	$710,309	$364,905	$20,707	$234,333	$2,860,540	$7,001,751	$3,172,478	$4,012,989	$717,940	$6,138,139	$248,543	$823,995	$13,720,885	$22,703,836	$38,949,507
	NET A/R	$4,856,662	$6,202,547	$1,552,078	$3,547,389	$6,709,699	$6,822,205	$3,215,148	$3,027,936	$766,803	$2,471,227	$220,001	$115,983	$43,284,654	$32,173,479	$92,151,914

CL 035635

AHERF Consolidated
Aging by Major Payor > 180 days
06/30/96

	St. Chris InPatient 180 days- 36	St. Chris InPatient > 360 days	St. Chris Out Patient > 180 days - 360	St. Chris Out Patient > 360 days	Bucks County InPatient > 180 days - 360	Bucks County InPatient > 360 days	Bucks County Out Patient > 180 days - 360	Bucks County Out Patient > 360 days	Elkins InPatient > 180 days - 360	Elkins InPatient > 360 days	Elkins Out Patient > 180 days - 360	Elkins Out Patient > 360 days	MCC InPatient > 180 days - 360	MCC InPatient > 360 days
Medicaid A/R	$2,521,821	$1,902,890	$1,111,800	$298,350	$673,095	$257,439	$233,181	$147,350	$282,474	$45,964	$695,128	$279,698	$1,043,147	$1,192,038
Reserve	$1,352,680	$1,617,457	$39,114	$6,351	$382,727	$221,735	$6,806	$1,473	$135,013	$40,895	$14,574	$2,421	$295,873	$323,041
Total Medicaid	$1,169,141	$285,433	$1,072,686	$291,999	$290,368	$35,704	$226,375	$145,877	$147,461	$5,069	$680,554	$277,277	$747,274	$868,998
Blue Cross A/R	$3,342,535	$2,461,507	$964,591	$398,765	$357,838	$908,196	$772,184	$409,575	$442,515	$836,359	$1,661,552	$510,369	$380,294	$301,176
Reserve	$344,594	$492,301	$35,223	$4,945	$26,368	$272,318	$14,236	$4,649	$48,381	$183,189	$43,666	$5,634	($102,361)	$301,176
Total Blue Cross	$2,997,941	$1,969,206	$929,368	$393,820	$331,470	$635,878	$757,948	$404,926	$394,134	$653,170	$1,617,886	$504,735	$482,656	($50)
Medicare A/R	$130,077	$46,775	$193,948	$792,983	$465,682	$355,140	$808,778	$365,912	$893,339	$241,618	$1,429,755	$804,838	$573,891	$224,425
Reserve	$6,468	$14,017	$11,107	$2,696	$50,269	$106,542	$19,525	$2,500	$78,041	$72,485	$24,140	$5,668	$3,999	$3,999
Total Medicare	$123,609	$32,758	$182,841	$790,287	$415,413	$248,598	$789,253	$363,412	$815,298	$169,133	$1,405,615	$799,170	$569,892	$220,426
HMO	$1,439,963	$197,030	$1,092,455	$445,619	$627,491	$218,632	$1,975,771	$1,271,067	$398,290	$143,663	$1,695,831	$632,599	$375,919	$950,144
Reserve	$175,938	$59,109	$158,043	$7,165	$103,288	$65,590	$73,750	$11,274	$71,294	$43,099	$127,824	$4,549	($33,284)	($33,284)
Total HMO	$1,264,025	$137,921	$934,412	$438,454	$524,203	$153,042	$1,902,021	$1,259,793	$326,996	$100,564	$1,568,007	$628,050	$409,203	$983,428
Other A/R	$3,211,974	$870,432	$3,424,804	$2,269,249	$1,146,158	$445,947	$1,735,860	$604,777	$1,193,362	$468,018	$2,599,330	$1,830,535	$850,142	$1,172,970
Reserve	$1,425,627	$521,337	$331,243	($153,452)	$669,224	$245,164	$190,694	$104,160	$559,650	$339,720	$369,170	$187,336	$309,141	$381,276
Total Other	$1,786,347	$349,095	$3,093,561	$2,422,701	$476,934	$200,783	$1,545,166	$500,617	$633,712	$128,298	$2,230,160	$1,643,199	$541,001	$791,694
Total A/R	$10,646,390	$5,478,584	$6,787,598	$4,404,966	$3,270,264	$2,185,574	$5,525,774	$2,798,681	$3,209,980	$1,735,622	$8,081,596	$4,078,039	$3,243,393	$3,840,752
Total Reserve	$3,305,307	$2,704,421	$574,730	($132,295)	$1,043,876	$911,549	$305,011	$124,056	$892,379	$679,388	$579,374	$205,608	$473,367	$976,206
NET A/R	$7,341,083	$2,774,163	$6,212,868	$4,537,261	$2,226,388	$1,274,025	$5,220,763	$2,674,625	$2,317,601	$1,056,234	$7,502,222	$3,872,431	$2,770,026	$2,864,545

CL 035636

EXHIBIT 4473

Allegheny Health, Education
and Research Foundation
1997 Audit Update
October 1, 1997

dollars in thousands

1997 Financial Results

	1997		1996	
Net Income, before extraordinary item and				
change in accounting principle	21,926		6,547	
Extraordinary item and effect of change				
in accounting principle	-		(18,384)	(1)
Net income (loss)	21,926	(2,3,4)	(11,837)	(2,3)
Unrealized depreciation on investments	(9,146)		-	(5)
Other changes in unrestricted net assets	(2,220)		3,830	
Net increase(decrease) in unrestricted net assets	10,560		(8,007)	

(1) Includes adjustments for the extraordinary loss on early extinguishment of debt for the Delaware Valley Obligated Group and the adoption of Statement of Financial Accounting Standard (SFAS) Nos. 116 "Accounting for Contributions Received and Contributions Made" and 124 "Accounting for Certain Investments Held by Not-for-Profit Organizations," of $(32,534) and $14,150, respectively.

(2) Includes realized gains on the sale of investment securities of $63,459 and $~~10,144~~ $41M at June 30, 1997 and 1996, respectively.

(3) Includes net assets released from restrictions used for operations of $47,229 and $18,916 at June 30, 1997 and 1996, respectively. Included in the $47,229 is approximately $36.7 million of temporarily restricted income released from restriction for the purpose of benefiting the AHERF system. Approximately $12 million of such funds is available for future fiscal years.

(4) Includes the results of operations for Forbes Health System, Allegheny Valley Health System and the Former Graduate Health System Entities for the date of acquisition (ie., January 1, 1997, March 1, 1997 and May 1, 1997, respectively).

(5) Amounts reported in prior years for unrealized investment securities gains(losses) were reported as component of AHERF's operating indicator. As indicated on page 6, the AICPA Audit and Accounting Guide for Health Care Providers requires presentation of unrealized gains(losses) on investment securities, other than trading, to be recorded as component of the change in net assets.

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Patient Accounts Receivable (including professional fee accounts)

	1997	1996
Patient Accounts, net of cash clearing	563,878 (1)	399,827 (1)
Allowance for Uncollectible Accounts	(127,424)	(63,830)
PIP	(3,208)	7,251
Cost Rate Adjustments	(66,185)	(23,189)
Net Patient Accounts Receivable	367,061	320,059
Bad Debt Expense	66,416	67,534
Allowance as a % of Accounts Receivable, before PIP/CRA	23%	16%
Days in Accounts Receivable		
(based on ending a/r and net of CRA/PIP)	79	86
Charity Care	16,324	13,571

(1) Includes professional fee accounts of $70,889 and $54,032 at June 30, 1997 and 1996, respectively.

- Acquired patient accounts receivable, net of allowance for uncollectible accounts and CRAs, approximated $68.5 million at the respective date of acquisition.
- During fiscal year 1997, the AHERF system acquired 40 physician practices, including Penn Group Medical Associates.
- Also during 1997, the AHERF system adopted a uniform bad debt reserve methodology which provides for an allowance on patient accounts by aging category and payor.
- Cost rate adjustments at June 30, 1997 include approximately $7 million for depreciation recapture — Reserve receivables and $2.4 million prudent buyer reserves associated with the acquisitions during 1997.
- During 1997, AHERF reversed $14 million of reserves into net patient service revenue related to Qual Med/Greater Atlantic. The reserves were established at Graduate Hospital during the sale of Greater Atlantic as deferred revenue to provide future services. Based AHERF's analysis, no obligation exists under the sale agreement, therefore such amounts were reversed. Consideration should have been given to reversing the amount through purchase accounting adjustments versus including the $14 million in the AHERF consolidated results of operations.

Assets Limited or Restricted As to Use

- Acquired assets limited or restricted as to use approximated $258,418 at the respective date of acquisition.
- Consistent with prior years, AGH, via cash advances, continued to fund the operations of AHERF affiliates. Amounts provided by AGH amounted to approximately $100 million during 1997. Such amounts advanced have been recorded by the respective entities as non-current intercompany payables.

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Non Strategic Assets

Property and Equipment, net

CH - Person - Accounting - Valuation point of View

- During 1997, the James Street and Hemlock Street parking garages and the East ~~Wing of AGH~~, were sold in connection with a sale/leaseback transactions. Proceeds from the sale approximated $33 million. The deferred gain of $15.4 million has been deferred and is being amortized into income over the life of the lease (ie., 20 years).
- In prior years, transfers to AIHG were provided for building the capital structure of the physician practice groups. During 1997, a decision was made to transfer $30.7 million of property and equipment and $59.3 million of intangible assets that have been accumulated by AIHG to the respective hospital that provided funding to AIHG since its inception.
- In connection with the 1997 acquisitions, the AHERF system acquired various property and equipment. At the time of acquisition, market appraisals were obtained principally for purposes of filing for reimbursement for depreciation recapture from Medicare and Medical Assistance. AHERF performed an analysis in accordance with APB No. 16 and adjusted property and equipment accordingly. As deemed appropriate based on the results of the analysis, property and equipment was adjusted up to an amount not to exceed the appraised value of the property.

Intangible Assets (net of accumulated amortization)

Created Due to Recapture

	1997		1996	Amortization Period
1997 Acquisition Positive Goodwill	115,004	(1)	-	35 years
1997 Acquisition Negative Goodwill	(31,703)		-	10 years
Physician Practice Goodwill/Non-Compete/Transition Payments	61,037	(2)	21,539	5-15 years
Other intangibles	10,770		7,226	3-5 years
Total intangibles	218,514		28,765	

(1) Includes goodwill recorded during 1997 for the acquisition of PGMA of approximately $84 million, which consists of $64 million recorded as a loss contract for the HealthAmerica risk contract and $20 million for the note payable due to Coventry. The remaining goodwill recorded with such acquisitions relates the Former Graduate Health System Hospitals.

(2) Consists of negative goodwill recorded in connection with the Forbes Health System and Allegheny Valley Health System acquisitions of $26,609 and $5,094, respectively.

- As previously discussed in property and equipment above, AIHG transferred $59.3 million intangible assets to the respective hospitals.
- During 1997, as previously discussed, the AHERF system acquired Forbes Health System, Allegheny Valley Health System and certain Former Graduate Health System Entities. The acquisitions were treated as a purchase in accordance with APB No. 16.
- As discussed in the notes of the financial statements, AHERF is required to perform an analysis of the impairment of long-lived assets, which includes intangibles, in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of." No such impairment reserves have been deemed necessary at June 30, 1997.
- Management will be required to perform ongoing periodic cash flow analysis to identify impairments in the recorded assets.

80

FYE	[illegible]	Properties	
	97	98	99
NJ	20	53	58
Actual-Use	⟨10⟩	~~23~~ 35	28
Dept	108	108 120	115
	118	131 [illegible]	143
Forbes	—	20	20
	118	151	163
Debt 35 35 70	⟨70⟩	⟨70⟩	⟨70⟩
Net Cash Flow	48	81	93

Budget 155
70
85

CL 036433

Accounts Payable

- Accounts payable at June 30, 1997 approximated $217.9 million versus $103.2 million at June 30, 1996. The increase includes both assumed accounts from the acquired entities of $48.8 million and AHERF's extension payment terms to vendors. Days in accounts payable, based on ending accounts payable, at June 30, 1997 were 114 days versus 76 days at June 30, 1996.
- Based on our discussions with management, it is our understanding that over 500 AHERF vendors are on credit hold.
- Our audit procedures include performing a search for unrecorded liabilities. Our search results indicated the following items: 1) closing adjustments to record capital purchases were not processed due to time constraints in closing accounts payable, 2) approximately $540 thousand of expenses were improperly excluded from the year end accrual, and 3) approximately $643 thousand of expenses were improperly included in the year end accrual.

Intercompany Receivables(Payables)

- As noted in assets limited as to use, AGH has provided funding to various affiliates within the AHERF system. Management has evaluated the classification of the outstanding balances and has concluded that such amounts should be reported as non-current in the consolidating and combining financial information of the AHERF financial statements.
- An evaluation of the collectibility of the outstanding amounts should be performed and evaluated in connection with performing periodic debt covenant requirements. Specific management representation of the collectibility of the accounts has been requested.

Commitments/Contingencies

- As disclosed in the notes of the financial statements, the AHERF system has off-balance sheet commitments totaling $431,676 at June 30, 1997 versus $247,540 at June 30, 1996.
- Subsequent to year-end, the AHERF system entered into an $30,000 operating lease program to finance certain equipment needs.
- As part of a management agreement, AIHG and Allegheny University provide certain physician, billing and accounting services to Sidney Hillman Medical Center (SHMC). In connection with the management agreement, AIHG has committed to fund losses of SHMC until 2011. Included as a component of non-operating income at June 30, 1997, AIHG has recorded a commitment of $1.1 million. AHERF should evaluate the remaining commitment as a loss contract.

Self-Insurance Liabilities

	1997		1996	Discount Rate
Malpractice/General Liability Reserves	82,708		59,317	7.5%
Workers' Compensation Reserves	35,058		18,684	6.0%
Total self-insurance reserves	117,766		78,001	
Self-insurance reserve funds	70,117	(1)	68,171	

(1) Funds available for self-insurance claims include approximately $49.7 million and $45.4 million at June 30, 1997 and 1996, respectively, held at AHSPIC.

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CL 036434

Self-Insurance Liabilities, continued

- During 1996, AHSPIC recorded a promissory note of approximately $2.5 million from AHERF. Such amount was required to meet minimum capital requirements. During 1997, AHERF paid the note and recorded the amount as an increase in their equity investment in AHSPIC.
- Assumed self-insurance liabilities from the 1997 acquisitions approximated $8.9 million and $13.6 million for malpractice and workers' compensation, respectively, at the respective date of acquisition.
- Subsequent to the date of acquisition of GHS Re Limited, the former Graduate Health System captive insurance company, AHERF transferred all self-insurance risk to a commercial payor.
- In connection with the self-insurance reserves acquired, purchase accounting adjustments of approximately $7.1 million were recorded to conform the acquired entities to AHERF's reserve methodologies.

Risk Contracts

Mgt - Development of Program

- AHERF has various agreements with third-party payors to provide medical services to subscribing participants. Currently AHERF has assumed the risk of managing care for approximately 500,000 lives. Managing the risk of loss under such contracts is essential through a structured medical management program. Additionally, proper tracking of capitation revenue as premium revenue continues to grow within the AHERF system is necessary for reporting purposes.
- During 1997, as previously discussed, AHERF acquired PGMA. In connection with the transaction, AHERF entered into a risk-sharing arrangement with HealthAmerica whereby AHERF receives certain premium levels to cover the treatment HealthAmerica subscribers receive from AHERF-affiliated physicians. The contract is initially expected to generate significant losses to the AHERF system. Estimates of the losses (ie., $64 million) have been capitalized in connection with the purchase transaction.
- AHERF has also recorded risk reserves for its contracts with US Healthcare for 1995, 1996 and 1997, and Pyramid for 1997. Such amounts estimated for settlement of outstanding liabilities at June 30, 1997 approximated $11 million and $10 million, respectively.

Long-Term Debt/Line of Credit Borrowings

- Assumed long-term debt from the 1997 acquisitions approximated $331,044 at the respective date of acquisition.
- Allegheny Hospitals, Centennial Obligated Group was not in compliance with its debt service coverage ratio for the twelve-month period ended June 30, 1997. The obligated group has requested a waiver from such event of default. Coopers & Lybrand's opinion will be dual dated upon receipt of the waiver by the obligated group.
- During 1997, AHERF entered into a consolidated $100 million line of credit with Mellon and other participating financial institutions. The line provides for long-term payment terms, however, internal notes with short-term payment terms have been entered into by AHERF entities as borrowers on the line. As such the respective liability has been recorded at the individual entity level based on their draws.

Impact of Adoption of New Accounting Standards

- During fiscal year 1996, AHERF adopted SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Entities," at which time, AHERF recorded the unrealized gain(loss) on investments as a component of the operating indicator. Effective for fiscal year 1997, the Audit and Accounting Guide for Health Care Providers (the Guide) was issued by the AICPA. The Guide requires that unrealized gains(losses) on investments, other than trading, should be recorded as a component of the change in net assets and excluded from the operating indicator. AHERF has properly reflected the amount during 1997. No disclosure of the impact of the adoption of the Guide has been made due to the single year presentation of the financial statements.
- During 1997, AHERF adopted SFAS No. 121. Management does not believe an impairment reserve is necessary based on their evaluation of the recoverability of the intangible assets.

Other Matters

- Other reporting requirements
  AHERF final report
  Debt Letters (including agreed-upon procedures)
  No Material Weakness Letter
  Hahnemann Insurance Company
  Prudent Buyer (AHERF '97 and Graduate '96 and '97)
  Allegheny Valley Hospital Foundation
  Monroeville Hospital Authority
  Spina Bifida
  Benefit Plans (AHERF, Forbes and Zurbrugg due October 15th)
  OMB Circular A-133 (Fieldwork scheduled for October 6th)

	'97	'96
NI	21.9	6.5
Forbes/AVHI	<20.0>	
Overhead	<10.3>	
AHSAF	<8.4>	6.5
Invest. gain	<76.7>	<74.1>
Core oper	<85.1>	<67.6>
DNI	20.0	22.0
	<65.1>	<45.6>
Depn	107.0	95.6
	42.0	50.0
Core oper AHSFC	<61>	<41>
Hosp	<24>	26
	<85>	<67>
DNI Hosp	Ø	Ø
GA Corp	248.5 ↑122	129,000 117

AHSAF <8.4>
Forbes 18
AVHI 10
Overhead <3>
16.6
Depn 107.0
123.6
Delaware 35.0
PMGA 35.0
53.0

CL 036437

	1997	1996
Revenue	$63.8	$41.8
Expense	66.4	67.5
	130.2	109.3
Chg off's (core)	<80.4>	
(nest)	<14.6>	
	<95.0>	<45.5>
Reserve - A.P	35.2	63.8
Required Reserve	~~40.0~~ 41.5	
Estimate	90.0	
	125.2	
Reserve F/S	127.4	

Free Care	30 million
Chg off's	130 million
Revenues	3.6 billion
Average	4 1/2 % loss

Holdup

Acquired Facilities	2.9
AVH	1.1
[illegible]	36.0
	40.0
Old AHERF - G/L	35.2
Other Reserve	22.5
	97.7
Graduate - [illegible]	14.0 (Paul Neal - DMC)
Valley Forge	14.0
Pending [illegible]	5.1 ← ([illegible])
	130.8

CL 036438

1997

OLD AHERF	$239.1	
Formula Reserve	$79.1	
IBC / Oxford Ins Cash Flow	<9.0>	-30% vs 16%
Unapplied Cash	<1.9>	($3.8 DUE)
Needed	66.2	
Bad Debt	$35.2	
Spec OSA	10.0	(DUOB ?)
Spec CIA	9.8	($ .8 AGH 9.0 DUOB)
Legal Reserve GIL	1.7	
	56.7	
SCHC Collection	1.0	
	57.7	

Old AIR $239.1
Collections 150.8
88.3
Reserve 58.0
Need $ 30.3
to Be Allowed Sept

Difference $8.5 OK
∘ AGH Collections - 88
∘ Recovery $'s - 7 $3 to $4

CL 036439

CL 036440

AHERF
Subsequent Receipts
6/30/97

NOTE: C&L obtained the cash receipts information fro Summaries prepared by Bill Gedman, Patient A

AGH

I/P A/R at 6/30/97	47,566,957
O/P A/R at 6/30/97	33,692,113
	81,259,070 (X)
July Receipts	35,251,217
August Receipts	28,248,243
Total remaining as of 8/25/97	17,759,610
Dollar Coverage	78.14%

Bad Debt Reserve $9.6 million
Net Exposure $8,160 ok

HUH

I/P A/R at 6/30/97	80,344,936 ?
O/P A/R at 6/30/97	43,695,814
	124,040,750
July Receipts	20,753,058
August Receipts	14,254,656
Total remaining as of 8/25/97	89,033,036
Dollar Coverage	28.22%

Reserve

MCP & EPPI

I/P A/R at 6/30/97	60,321,021
O/P A/R at 6/30/97	28,836,431
	89,157,452
July Receipts	11,720,770
August Receipts	14,113,864
Total remaining as of 8/25/97	63,322,818
Dollar Coverage	28.98%

the Daily Cash
ctg.

Bucks

I/P A/R at 6/30/97	8,016,107
O/P A/R at 6/30/97	13,989,121
16,355	22,005,228
July Receipts	3,688,717
August Receipts	3,141,153
Total remaining as of 8/25/97	15,175,358
Dollar Coverage 42.7	~~31.04%~~

Elkins

I/P A/R at 6/30/97	10,675,763
O/P A/R at 6/30/97	15,538,436
18,900	26,214,199
July Receipts	3,997,835
August Receipts	3,056,017
Total remaining as of 8/25/97	19,160,347
Dollar Coverage 37.37	~~26.91%~~

SCHC

I/P A/R at 6/30/97	29,017,559
O/P A/R at 6/30/97	22,105,894
	51,123,453
July Receipts	7,173,663
August Receipts	5,375,386
Total remaining as of 8/25/97	38,574,404
Dollar Coverage	24.55%

A/R -

Consolidated	341,178,205
Graduate	<90,559,119>
Forbes	<28,333,392>
AUH	<11,468,662>
	210,817,032

ACH	72,097
Med Sci	1,510
MCP	43,809
SHC	34,167
EPC	13,523
BCC	12,070
HUH	61,903
AU	68
	239,147

FIS	34,166,975
B.D	9,707,165
	43,874,140
	12,549,049
	31,325,091
	28.67

Consolidated - OLD AHERF

Collections $ 150,774,579

A/R net 239,147

Collections 150,775 > 63% Coverage Consolidated

CL 036443

EXHIBIT 6012

Allegheny Health Education and Research Foundation

Delaware Valley Obligated Group

Turnaround Evaluation
As Of September 30, 1996

Submitted: August 2004

Thomas W. Singleton, President and CEO
Cambio Health Solutions, LLC
100 Westwood Place
Suite 350
Brentwood, TN 37027

DEPOSITION
EXHIBIT
6012
AKF

Thomas W. Singleton – Experience and Qualifications

My name is Thomas W. Singleton. I am President and CEO of Cambio Health Solutions, LLC (Cambio), a nationally-recognized hospital turnaround management and consulting company.

I have over twenty-five years of experience in the healthcare industry. Upon receiving an MBA from the University of Chicago, my healthcare career began as a systems and financial analyst. I then became a Chief Financial Officer of a hospital and was ultimately promoted to a corporate finance position with responsibility for the financial management of several hospitals. Subsequently I served as the Chief Financial Officer and Treasurer of a large hospital management company. In 1989, I founded Cambio's predecessor enterprise, The Intensive Resource Division of Hospital Management Professionals, Inc. In addition, I have also served as the president and CEO of a publicly-traded hospital company.

As President and CEO of Cambio, I have had ultimate responsibility for over 100 consultative and management engagements. These projects have included turning around various hospitals ranging from a 100 bed suburban hospital to a 700 bed teaching hospital.

I have been involved in bringing hospitals out of bankruptcy, keeping hospitals out of bankruptcy and improving the performance of financially stable hospitals concerned about deterioration in financial performance.

I have also negotiated a substantial number of hospital sales and debt restructurings. MBIA, a significant creditor of the Allegheny Health Education and Research Foundation (AHERF) engaged me in July of 1998 to serve as advisor/consultant for MBIA in the 1998 bankruptcy filing of AHERF. In connection with the 1998 filing, I began my assignment as an advisor to MBIA as to valuation and the identification of

potential purchasers of AHERF assets, and eventually I oversaw the development of a plan focused on the turnaround of certain Eastern AHERF enterprises.
In performing my analysis, I have utilized a team of persons employed by Cambio who worked under my direction and control.

For additional information on my qualifications and background, please refer to Exhibit I attached to this report for a copy of my Curriculum Vitae and Exhibit II for a list of national speaking engagements.

SUMMARY

I have been asked by the Official Committee of Unsecured Creditors of AHERF (the Committee) to evaluate whether AHERF, in the restated financial condition articulated by the Committee's forensic accountants for fiscal year-end 1996, and with appropriate intervention around September of 1996, could remain financially viable and therefore avoid the creditor loss occasioned when it resorted to Chapter 11 protection some two years later. Based upon both my review of the financial data and other information in connection with this engagement and on my previous work performed for MBIA, I believe that the answer to that question focuses upon whether those entities that formed the so-called Delaware Valley Obligated Group (DVOG), as influenced by operations at Allegheny Integrated Health Group (AIHG), could be restored to financial stability on a go-forward basis. It is my opinion that DVOG could have been restored to a position of financial viability upon a timely intervention by AHERF's Board or others around the end of September, 1996. For purposes of this analysis, and by "financial stability", I mean that the DVOG entities could, within three to four years, have been restored to a position of positive earnings before interest, taxes, depreciation and amortization (EBITDA), sufficient to allow AHERF's Board to sell the entities without creditor loss. In the late 1990's, hospitals of similar kind to the DVOG entities' sold at multiples of between five and eight times EBITDA. This does not suggest that a sale of any or all of the DVOG hospitals was or was not necessary. Rather, in analyzing for present purposes the ability to avoid a creditor loss through an intervention and

turnaround, a finite measure of success is the ability to sell the troubled entities free of loss to debt holders.

The Committee's accounting experts have developed various adjustments to the audited financial statements for fiscal 1996. The financial statements of DVOG, when properly stated, provide evidence of financial distress and accounting and financial practices sufficient to compel intervention in the financial management of DVOG. In my experience, when a board of trustees of a hospital organization is provided with accurate information regarding the operations and potential financial peril of the kind portrayed here, board action is swift. Board action is also inevitable when creditor pressure, precipitated by flagging financial performance or the organization's potential or actual inability to comply with debt covenants, is brought to bear. In my opinion, both of these results were probable, if not assured, had AHERF's independent public accounting firm reported upon statements with operating losses for the system consistent with those shown by the Committee's restated financial statements.

Often in such situations an independent firm such as Cambio is contracted to develop and implement an EBITDA improvement plan, commonly referred to as a "turnaround" plan, such as the one discussed herein. In reviewing the data, it became apparent that a major drain on AHERF's financial performance was the loss for the acquisition and subsidy of physician practices at AIHG, an AHERF entity not part of the DVOG obligated group. I therefore looked at potential EBITDA improvement at the DVOG entities as well as the AIHG physician practices.

As noted in the following table labeled "Summary of EBITDA Improvement," there were significant opportunities for both financial improvement and cost avoidance in the months and years following fiscal 1996. Principal among the latter would have been placing a hold on further development of AHERF's Integrated Delivery System model (IDS), specifically the further acquisition of hospitals and physician practices, and the assumption of additional capitated contract risk beyond that which existed at September of 1996. I have developed turn around initiatives that, when fully implemented in fiscal 1999, yield $123.7 million in EBITDA improvement for the DVOG

entities and limit further EBITDA deterioration at AIHG to $8.8 million. Consistent with my experience, I have conservatively assumed that 30% of the EBITDA improvements, reduced to account for nine months of improvement in year one, could have been achieved in fiscal 1997, 70% in 1998, with full realization in fiscal 1999. Cessation of further physician practice acquisition and risk contracting at or around September 30, 1996 would have produced an immediate impact on AIHG EBITDA deterioration.

SUMMARY OF EBITDA IMPROVEMENT

		EBITDA Improvement Phase In		
	Delaware Valley Obligated Group and AIHG Total EBITDA for Fiscal Year Ending 6/30/1996 Calculated From Creditors Committee Accounting Expert's Adjustments	Fiscal Year Ending 6/30/1997	Fiscal Year Ending 6/30/1998	Fiscal Year Ending 6/30/1999
Delaware Valley Obligated Group				
Restated Base Year EBITDA	38,129	38,129	38,129	38,129
EBITDA Improvements (Cambio Findings)				
Supply Chain Management		4,107	12,778	18,254
Productivity		14,148	44.015	62,878
Case Management		573	1,782	2,546
Revenue Cycle		7,274	22,632	32,331
Discretionary Spending		1,720	5,350	7,642
Total EBITDA Improvements		27,882	86,556	123,651
Allegheny Integrated Health Group				
EBITDA as restated by the Creditors committee Accounting Experts adjusted for Improvements	(36,659)	(45,459)	(45,459)	(45,459)
Combined DVOG and AIHG				
Combined Restated EBITDA Adjusted for Improvement	1,470	20,492	79,226	116,321

Note: The Delaware Valley Obligated Group is comprised of the following entities:
- Allegheny Center City Hospital
- Allegheny East Falls Hospital
- Allegheny Bucks County Hospital
- Allegheny Elkins Park Hospital
- St. Christophers Hospital
- Allegheny University - (a medical school entity)
- Management Support Services - (an entity providing system resources such as Human Resources, Legal, etc.)

Note: The Allegheny Integrated Health Group is an entity charged with management and financial reporting of employed physicians and risk contracting for all of AHERF.

Our analysis rendered a conclusion that improvements to EBITDA were sufficient to effect a turnaround. The improvements are sufficient to allow the AHERF Board of Trustees to sell the entities after turnaround without creditor loss.

The anticipated EBITDA improvements are not immediately realized in full, necessitating access to working capital during the turnaround process. The following simplified cash flow illustrates the need for access to funds in excess of EBITDA for fiscal 1997 and 1998.

SIMPLIFIED CASH FLOW			
	Fiscal 1997	Fiscal 1998	Fiscal 1999
EBITDA estimate including AIHG	20,492	79,226	116,321
Less:			
Debt Service	25,412	36,488	35,457
Capital Requirements	48,631	46,462	45,092
Cash Required	74,043	82,950	80,549
Excess / (Deficit) Cash	(53,551)	(3,724)	35,772
Beginning Cash	27,762	(25,789)	(29,513)
Ending Cash	(25,789)	(29,513)	6,259

AHERF, in fact, had sufficient working capital to undertake a feasible DVOG turnaround. AHERF and DVOG held investments in accounts titled "assets limited or restricted as to use." Amounts available for use are limited to the unrestricted portion of these asset accounts. We noted amounts in the unrestricted accounts (net of amounts designated for self-insurance reserves or encumbered as a debt service fund) of $48.8 million at DVOG alone as of June 30, 1996. In the context of a rational turnaround plan, AHERF had access to additional working capital through assets held by non-DVOG AHERF entities, current lenders or other sources.

The impact of a cessation of further IDS development, specifically acquisitions of hospitals, physician practices and entry into additional risk contracting agreements for AHERF as a whole is significant. Based on a review of data relating to capital acquisition and operating costs, if no additional physician practices had been purchased after September 30, 1996, AIHG would have conserved $38.7 million in cash. A total of $31.6 million in physician-acquisition costs were identified from the AHERF consolidating cash flow statement as of June 30, 1997. Additionally, AIHG incurred $7.1 million in derived EBITDA losses associated with practices that it acquired subsequent to September 30, 1996 during fiscal 1997.[1]

Based on a review of financial and statistical data, depositions of key individuals from the AHERF senior management team and others, various court filings and exhibits, and